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Johnson, Lucius E.

Before the Interstate Commerce Commission

[Roanoke, Va.]

[1917]

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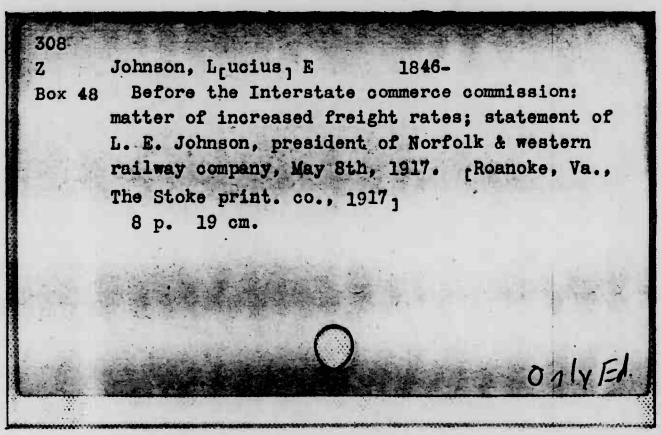
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Before the
Interstate Commerce
Commission

Matter of Increased Freight Rates

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STATEMENT OF

L. E. JOHNSON

PRESIDENT OF

NORFOLK & WESTERN RAILWAY
COMPANY

May 8th, 1917

Statement of L. E. Johnson, President of Norfolk & Western Railway Company, before the Interstate Commerce Commission May 8th, 1917.

An emergency exists which affects transportation in such a way as to require emergency relief through increased net earnings. It affects all carriers alike and so far as can be determined in the same degree and requires the same relief as to each, and the relief should take the form of a percentage increase in all freight rates, other than that allowed on coal, ore and coke, and others as specified in the applications now on file. That percentage of increase should be at least fifteen (15%) per cent., as it has already been shown by the gentlemen who have preceded me in this hearing, and as will be shown by the Norfolk & Western Railway especially, and the other railroads in the Southern District will answer this for themselves. This increase of fifteen (15%) per cent. will not offset the increased expenses caused by increased wages due to the Adamson Act, and the necessity of increasing all other classes of employees, and increased cost of fuel and material.

There has already been filed with the Bureau of Railway Economics statistical information which will be presented by some one authorized so to do. It should be stated, however, that the statistical information does not show so far as increased cost of labor is concerned, as accurately as has been determined since these statements were filed, and the estimates that we shall submit are nearer correct.

It is not possible to state what effect the state of

June 6, 1917 AET

war will have on the increased revenues and on the increased cost of transportation. The Adamson Act does not of itself create an emergency but is a part of the conditions which confront us and make it imperative for the carriers to meet the emergency to have additional revenues.

It is not claimed that this emergency existed prior to January 1, 1917, but the emergency did arise as soon as the President of the United States declared armed neutrality against Germany and its allies. It became an emergency requiring emergency treatment at that time. As to by what criteria it can be determined later that the emergency is past is a question that will be determined by this Commission, as we have already placed ourselves in the hands of this Commission.

It is difficult to state in detail what additional burden the war is expected to impose upon the carriers.

We may, however, safely say that the additional expense of guarding property, special efforts to meet the requirements of the Government and shippers, special movement of commodities, troops and munitions, require special train service and special terminal and yard service. I will now deal briefly with certain of the inquiries made by the Commission.

INQUIRY No. 3—LABOR AND WAGES.

(a) What is the total amount of the increase in wages during the period January 1st to March 31st, 1917, resulting from advances in wages rate which became effective since December 31st, 1916?

Answer..... $306,321

(b) What part, if any, of the advance has been included in the monthly report of Operating Expenses to the Interstate Commerce Commission since January 1st, 1917?

Answer..... $290,000

(c) How much of this advance is directly attributable to th Adamson Eight Hour Law?

Answer $225,000

(d) What is the percentage of amount shown under question (a) ($306,321.) above of:

1. Total operating revenue, 3 months to March 31st:
   Answer..... 2.09%
2. Total operating expenses as reported March 31st:
   Answer..... 3.52%
3. Net operating revenue as reported.
   Answer..... 5.18%

The above represents only the increase in wages during the first three months, but increases in wages had been made which are effective as of March 1st, and May 1st, and including the first three months, show a total increase to all labor, including Adamson Act, of $3,039,250.00.

	$3,039,250.00
Increase in cost of coal	2,940,000.00
Increase in other material and supplies other than coal	1,968,397.00
Total	$7,947,647.00

INQUIRY No. 4—Cost of Fuel Material and Supplies.

(a) How do fuel contracts and costs now current compare with those in effect a year ago?

Answer: The average cost of fuel coal for the year ended March 31st, 1917, was, per gross ton $1.26

For the year beginning April 1st, 1917, contracts have been made for 3,000,000 tons at rate per net ton of $2.00, or per gross ton $2.24

Upon the assumption that the Railway Company can secure the entire tonnage contracted for, the minimum increased cost would represent, $2,940,000.

(b) The same question as to rails, ties, and other supplies?

Answer: Open hearth steel rails now quoted, per gross ton, exclusive of freight charges	$40.00
as compared with 1916	30.72
White oak ties, current average price	.66c
as compared with 1916	.55c
The cost of materials and supplies other than equipment, fuel coal, rails and ties, actually purchased in 1916, was the amount	$5,011,843.78
Under current prices and quotations, the cost in 1917 would be	6,980,241.46
Or an increase of—39%	$1,968,397.68

I submit a comparative statement showing the quantity purchased, total cost and average price per unit as indicated of representative items as shown for the Calendar Years 1912 to 1916, inclusive, and such portion of 1917 as is now available, also contract prices (showing duration of same) together with the latest quotations, whether accepted or not, and I have marked this statement "Exhibit A," and same is attached hereto.

INQUIRY No. 5—Recent Changes in Rates.

(a) What increase in gross operating revenues, absolutely and on a percentage basis, has resulted, and may be expected to result from new rates and changes which have become effective since January 1, 1917?

Answer:		Percentage of Increase
Increase in rates on Tidewater Coal is estimated, will yield additional revenue of	$708,000	7%
Lake Cargo Coal rates will yield	340,000	14%
Line coal to points east of Lynchburg, Va.	150,000	7%
Coke to Virginia Furnaces	240,000	86%
	$1,438,000	9.55%

Net increase of net operating revenue in fifteen months $5,587,973

Extra dividends on common stock were paid as follows:	
June, 1916, 1 per cent.	$1,170,304
March, 1917, 1 per cent.	1,192,524
The remainder of the above net increase was appropriated for investment in physical property.	3,225,145
	$5,587,973

The charges for taxes were increased during the fifteen months $642,000. It is a question as to how much, if any, of this is attributable to the increase in net railway operating revenues. Taxes are payable from ordinary revenue, and perhaps the increase was not in anything like as great proportion as the increase in net railway operating revenues.

Similarly it is questionable if the increased revenue contributed anything toward the increase of the profit and loss credit balance. The following table shows the recent additions to profit and loss surplus:

Year ended June 30, 1915	$1,819,044
Year ended June 30, 1916	2,606,618
Six months ended December 31, 1916	1,435,087

The reasonableness of the proposed increase of rates is shown by the statements already made.

INQUIRY No. 7—Application to be Made of Proposed Increased Revenues:

(a) Carriers should indicate the approximate amount of increases in gross and net operating revenues which in their estimate would result to representative lines, compared with gross and net operating revenues for the fiscal year ended June 30th, 1916.

Answer: The gross operating revenue with all increases, both as authorized and sought for	$62,893,477.32
Gross operating revenue for year ended June 30th, 1916	57,304,586.32
Increase in gross operating revenue	$ 5,588,891.00

The net operating revenue with increases in revenue and operating expenses	$21,664,697.37
Net operating revenue for year ended June 30th, 1916	25,123,240.37
Decrease in net operating revenue	$3,458,543.00

The Norfolk & Western Railway Company's management feels that during the war its dividends on common stock should not exceed the present regular dividend rates, but in order to justify dividends at this full rate there must be an additional amount of net income from which to meet expenditures for additions and betterments to Road and Equipment which are required to maintain (without increasing) the Company's earnings, power and capacity.

The ability of the people of the United States to pay the taxes and the bond subscriptions necessary to finance the war depends upon the income they receive and their ability to borrow from the banks. If there should be a general cutting down of income derived from dividends and other sources, the people will have less money available for the payment of taxes and to apply to the purchase of government bonds. Furthermore, the effect of a general reduction of the return from investments would be to lower the value of investments and diminish the power of the people to borrow from the banks the moneys necessary to subscribe for government bonds.

Therefore, it is not the purpose of the Norfolk & Western Railway Company to make any change in its present basis of dividend rates.

It is not only essential that sufficient revenue be earned to make the increased expenses, but there should also be a surplus to enable the carrier to meet its re-

quirements for additions and betterments, and the year 1916 should not be taken as a criterion by which the Norfolk & Western Railway Company is to meet its obligations to the Government and public with additions and betterments, as the percentage on property investment of the Norfolk & Western for the nine years' period ended June 30th, 1916, was 5.87%.

To meet the growing demands of commerce the total expenditures during the nine years' period ended June 30th, 1916, were, for equipment	$35,933,583.00
and for Roadway and Structures	51,731,293.00
A total of	$87,664,876.00

There should be expended in 1917 for roadway and structures improvements $15,000,000 which does not include any additional equipment.

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